Minutes of Special Meeting of J&K State Level Bankers' Committee (extended session) held on 20th December 2008 regarding enhancing credit delivery to MSE sector

As directed by Reserve Bank of India vide Circular No.RBI/2008-09/324 dated December 16, 2008, a special meeting of J&K SLBC was held at Jammu on 20.12.2008 in the afternoon (as an extended session of 74th J&K SLBC meeting) to deliberate upon the initiatives of enhancing credit delivery to the MSE sector in the context of the global developments and knock on effects in the domestic credit markets. The meeting was presided over by the Executive Director/ COO, J&K Bank. Executive Director/ CFO of J&K Bank, Regional Director (J&K) Reserve Bank of India, Director Industries & Commerce (Jammu) J&K Govt., President (A&AP) J&K Bank, representatives of major banks/ RRBs operating in the State, RBI, NABARD, KVIB and SME organizations in the State participated in the meeting. List of Participants is enclosed as **Annexure-A.**

At the outset Mr. M. S. Wani, Senior Executive Manager, SLBC (J&K) extended hearty welcome to the participants of the meeting. He informed the house that the objective of holding this meeting was to develop a level of understanding on the initiatives taken by RBI for enhancing credit flow to MSE sector to neutralize the impact of the global melt down on the economy. He stated that this would be a state-specific and national oriented deliberation for carrying the message of Govt. of India to encourage the employment intensive SME sector by providing it easy access to enhanced credit flow from banks so that this sector is in a position to tide over the adverse impact of economic slow down. Thereafter, he requested Mr. O. P. Aggarwal, Regional Director (J&K) Reserve Bank of India to delve on the subject in the context of the recent RBI guidelines and initiatives.

The Regional Director (J&K), RBI informed the house that in the backdrop of the global financial meltdown every one is expressing concern over its impact on the economy and financial sector in the country and representations have been pouring in for taking some measures to help the SME sector. Considering global financial crisis and its adverse impact on all sectors need has arisen to change ourselves keeping in view our requirements, our own potential and our own markets. He said that RBI has accordingly come out with some guidelines/ initiatives to overcome the adverse impact of the global situation. Hence, it was thought expedient to discuss and share instructions issued by regulator in a special session of SLBC and also assess the situation on exchange of views with the representatives of SME sector for removing any bottlenecks in its implementation and arriving at concrete measures in the interest of the sector as well as the banking system. Thereafter, he explained all the initiatives specifically mentioned in the RBI communication ad-seriatim for the information of the participants and impressed upon them to implement the same in letter and spirit.

He stated that 75% of the work devolves on banks and only 25% work has to be done by other allied agencies and the associated departments. He expected that all the banks would take on their respective roles to implement the guidelines and monitor progress in this regard and also ensure reporting of the position to RBI for onward submission to Government of India.

He clarified that lot of emphasis has been given on re-structuring of the accounts and pointed out that it was not necessary that restructuring should be demanded by the borrowers, but banks, if deemed necessary in the context of the changes all around, could at their own level also come out with restructuring plan and discuss it thereafter with the borrowers for obtaining their concurrence to go ahead with it. He further clarified that restructuring of account was being done previously also but at that time the account used to be down graded from Standard Asset to Sub-standard Asset turning the accounts into NPAs for which necessary provisions was required to be made, which has now been done away with though specifically for a limited time upto June, 2009. Hence, under the present initiative there will be no change in the status of the account viz-a-viz NPA norms as a consequence of restructuring and the account will continue to enjoy the same status, which is beneficial to both the bank as well as the borrower. Another feature of the concessions announced by RBI is that second restructuring of the accounts shall also be permissible and that too without affecting any change in the status of the account as aforesaid. Moreover, disbursement of loans against the sanctioned limits has to continue in the meantime.

The Regional Director further clarified that at national level Micro, Small and Medium Enterprises (MSME) (Refinance) Fund has been created with SIDBI to which Rs.2000 Crore are to be contributed by the banks on the basis of projected shortfall in achievement of sub-target of 10% for lending to weaker sections and RBI has provided a refinance limit of Rs.7000 Crore for incremental on-lending to the sector directly and through the banks, NBFCs and SFCs.

Regarding MSMED Act, 2006 the Regional Director informed the house that the Act provides that the companies dealing with SME sector have to give declaration that no dues are outstanding to MSE sector. He said that banks have been asked that while dealing with larger corporate (i.e. Rs.10 Crores and above) they should ensure that no dues to SME sector are outstanding with them. Moreover, while sanctioning / renewing credit limits to the large corporate borrowers banks have been advised to fix separate sub-limits for meeting payment obligations in respect of purchases from SSIs. These instructions have been made applicable to SMEs under the MSMED Act, 2006 and banks have been advised to adhere to these instructions meticulously.

To overcome the liquidity problem arising due to global slow down and for easing the position the Regional Director informed that RBI has taken a number of steps as mentioned below:

- Liquidity facility has been liberalized;
- CRR has been reduced;
- SLR has been reduced;
- Policy rates have been softened;
- Special refinance facilities have been introduced for the purpose of providing funds to SMEs sector;

Therefore, he said that the banks now do not have any liquidity crunch and it was now left to their decision-making, their intention and their approach.

Quoting the IBA news item, the Regional Director informed the house that IBA has advised its member banks to reduce rate of interest on SME funding which all the member banks of IBA will implement very soon.

The Regional Director stated that the copies of RBI circular containing these relaxations/ concessions to SME sector have been provided to all the members in the Agenda papers for the meeting so they should ensure the implementation. He desired that since representatives of banks, SMEs and also the Government departments are present in the meeting, the members should interact in with each other and identify the bottlenecks in implementation of these guidelines.

Mr. A. M. Mir, Executive Director/ CFO, J&K Bank, reiterated that the objective of holding this meeting was to discuss the issues relating to enhancing of flow of credit to MSEs sector and identify the difficulties and the bottlenecks if any. Assuring the house on behalf of the banks that the banks would implement all the guidelines, he requested the representatives of the SME to put forth their views before the house.

Mr. T. S. Reen, Chairman, Federation of Industries Jammu, giving his view point informed the house that industries sector in J&K as on date is in a very bad shape mainly for the reasons that GOI has withdrawn concession of Central excise midway, as a result the industry is day by day drifting towards sickness. He pointed out that withdrawal of the Central Excise was a breach of trust on behalf of the GOI. He warned that in case steps to bring back the industry in J&K on rails are not taken immediately, all the loans availed by the industries would turn into red and most of the industries in J&K would shut down. Referring to the funds created with SIDBI, Mr. Reen suggested that SIDBI should extend direct finance facility to the SME sector. He requested the house to take up the matter with concerned authorities in the govt. for extending some relief to the J&K industry to compensate the withdrawal of the concession of Central Excise.

Mr. Shakeel Kalandar, President, FCIK, stated that the current market situation caused by global meltdown and financial recession has considerably reduced the buying capacity of the people and adversely affected exports of goods from J&K, which mainly comprise of handicrafts and horticulture produce thereby causing grave concern. He pointed out that handicrafts is a luxury item and the people internationally are not much keen to purchase these items the way they used to do it earlier. Similarly export of the horticulture produce like walnut has also suffered as the domestic consumption in the USA has considerably reduced leaving surplus material to be exported to other countries like Germany and Japan. As a consequence to it other segments and the industrial units in J&K are also adversely affected in one way or the other.

Referring to the concessions offered as per the directives of RBI, Mr. Kalandar stated that they have been demanding the restructuring of MSME accounts from a long period to provide some relief to this employment generating sector in the wake of the political turmoil in the State for the last 19 years as a result of which the industry in J&K lost about 1800 work days due to curfews and strikes. He stated that a proposal was mooted to RBI that NPA norms be changed from the existing 90 days to 180 days in view of the fact that most of the loan accounts of industrial units in J&K have turned NPA. He requested the Regional Director, RBI to give his recommendations for extending this concession in the norms as a special case. Owing to deflating demand for walnut produce in the export market, the walnut processors intend to defer the sales for the next year so he recommended to make it mandatory for all banks operating in the State to consider enhancement of at least 25% of loans across the board for holding the stocks.

On the anomaly of the working group constituted recently to assess the business losses of 62 days of Amarnath land row agitation, Mr. Kalandar stated that Government needs to compensate the industry for 1662 days lost in similar conditions in disturbances by Kashmiri entrepreneurs during the past 19 years. He mentioned that as per a rough estimate J&K State suffered a loss of Rs.200 Crore per day.

Expressing his views on Rs.9000 Crore corpus with SIDBI, Mr. Kalandar pointed out that this refinance facility should be available on competitive rates of interest otherwise banks would not be keen to avail it.

Mr. Pradeep Gupta, Director Industries & Commerce, Jammu explained the salient features of the newly launched PMEGP Scheme and said that maximum project cost under the scheme has been put at Rs.25.00 lacs for manufacturing sector and Rs.10.00 lacs for services sector, whereas the Bank will sanction 90% of the project cost in case of General Category of beneficiary and 95% in case of special category of the beneficiaries and disburse full amount suitably for setting up the project. The subsidy component under the Scheme again varies from 15% to 35% in the rural and urban areas depending upon the category to which the unit belongs. The Bank credit will be ranging between 60-75% of the total project cost after deducting 15-35% of margin money (subsidy) and owner's contribution of 10% from the beneficiaries belonging to general category and 5% from beneficiaries belonging to special categories. One of the important features of the PMEGP Scheme was that verification criteria has been made more stringent and the unit to be established by the beneficiary has to be physically verified within 2 months of the sanctioning of the case. He informed the house that Industries Department has already received the State targets under the Scheme from KVIC and the subsidy has to be channelized through nodal bank branches to be identified by KVIC in consultation with the Director, Industries and Commerce of the State with the approval from SLBCC. Under the scheme the cases will be scrutinized by the District Level Task Force Committees headed by the Deputy Commissioners in every district and then the cases would be sent by the implementing agency concerned to the financing bank in the district. The financing bank branch will take its own credit decision and after release of Bank finance either partly or fully, will submit Margin Money (subsidy) claim in the prescribed format to the designated Nodal Branch of the State. He stated that the amount of subsidy has to be kept in TDR for 3 years during that period no interest has to be given to the TDR and on an equal portion of loan amount the unit holder will not have to pay any interest.

The Regional Director (J&K), RBI clarified in this regard that PMEGP was commercially viable scheme for banks and is covered under Credit Guarantee Fund Trust and consequently 30% of the recovery is assured and 90% of SIDBI insurance is also available.

Mr. Nazir Ahmad, a representative of FCIK, joining deliberations said that one of the major factors responsible for sickness in the industry was the high rate of interest charged by the banks. He pointed out that during the past 5-6 months the inflation has come down from 14% to 6%, but the rate of interests have not been reduced in that proportion and continue to be very high. He requested the house to consider suitable adjustment in the PLR and to reduce interest rates accordingly. Reacting to this, Mr. A. M. Mir, Executive Director/CFO, J&K Bank clarified that the rate of interest was determined on the basis of resources of the banks and it cannot be linked with variation in rate of inflation.

Mr. Abdul Majid Matoo, representing Kashmir Chamber of Commerce & Industry pleaded that in addition to the recent stimulus provided by GOI to the industry and for export finance the limit of concessional rate for handicrafts sector should be raised to 365 days from existing 180 days as the period of 90 days for other than Handicraft items has been already raised from 90 to 180 days. He requested that considering the prevailing conditions this forum should recommend a liberal package to be extended by the banks to the tourism industry and other related sectors in the State including transport, handicrafts etc. in addition to hotels and guest house. Reacting to the suggestion of Mr.Matoo to extend the concessional period in export credit to 365 days, the Regional Director (J&K) RBI advised Mr. Matoo to send a communication to him giving full details and the specific problems being experienced, and assured that the same would be looked into with a positive mindset for making recommendations to RBI Central Office.

Mr. Tafazul Hussain, President (A& AP), J&K Bank invited the attention to the compounding impact of prolonged disturbances in the State on tourism industry and requested the Regional Director, RBI to include all other allied sectors, which have been adversely affected due to shattered tourist season. He stressed that while implementing the RBI guidelines on relaxations in letter and spirit and being soft to the borrowers there is apprehension that it may correspondingly increase slippage and result in escalating NPAs and impaired assets, which may compounds the situation while extending the package. This critical aspect needs to be addressed with seriousness by being extended relative support by Govt. of India / Reserve bank of India.

Chairman, Ellaquai Dehati Bank (an RRB in the State sponsored by SBI) pointed out that the concessions provided by RBI/ GOI need to be passed on to the unorganized sector also. He pointed out that previously RRBs, though eligible to finance under KVIC / KVIB Schemes, were kept outside the purview of PMRY Scheme. He enquired if it was advisable for the RRBs to take up the sponsored cases under the new PMEGP Scheme. Reacting to it both Regional Director (J&K) RBI and Director Industries clarified that RRBs were a part of implementing PMEGP Scheme and that targets will be allocated to them accordingly.

Mr. M. S. Wani, Sr. Executive Manager, SLBC informed the house that "**Code of Banks Commitment to SMEs**" prepared by the Banking Codes and Standards Board of India (BCSBI) has been circulated to all the members with the agenda papers in the 74th SLBC meeting, which gives a positive thrust to SMEs sector in providing easy access to banking services and promoting good and fair banking practices. He said that copies of the said Code could be obtained from the SLBC office, Srinagar also.

Reacting to this, Mr. Shakeel Kalandar, representative of KCCI, pointed out that such Codes should be made mandatory to be adhered by the banks for the comfort of SMEs rather than being voluntary in nature.

Recommendations:

While summing up the deliberations Mr. A. M. Mir, Executive Director/ CFO, J&K Bank stated that considering the impact of the global melt down and adverse effects of political turmoil in the State and various other issues the following points have emerged in respect of which recommendations are made by the SLBC for desired action by GoI / RBI:

- The concessions in central excise to the industry in J&K State (which were granted previously and have been withdrawn) be restored;
- A special package be extended to resolve the problems being faced by exports and handicrafts sectors in J&K State;
- Relaxation in prudential norms for asset classification and income recognition be extended in view of the impact of disturbances in J&K State;
- Banks should reduce rates of interest on credit to SMEs.
- The guidelines issued by RBI should be implemented in letter and spirit.

Concluding the proceedings, Mr. A. K. Mehta, Executive Director/COO, J&K Bank thanked the participants of the meeting on behalf of the Convenor, SLBC.

(M. S. Wani)
Senior Executive Manager J&K Bank
Lead Bank Deptt./ Convenor J&K SLBC

Annexure –A

List of Participants of the Special SLBC meeting held on 20.12.2008 regarding flow of credit to SME Sector.

S.No.	Name	…	Designation / Organization
S/Shri:			
Reserve Bank of India			
1.	O. P. Aggarwal	…	Regional Director (J&K),
2.	H. S. Khiturlie	…	Deputy General Manager
3.	B. S. Katoch	…	Assistant General Manager
Convenor Bank (J&K Bank)			
4.	A. K. Mehta	…	Executive Director/ COO
5.	A. M. Mir	…	Executive Director/ CFO
6.	Ajit Singh	…	Sr. President (SM)/ CRO
7.	Tafazul Hussain	…	President (A&AP/ SBD)
8.	Madan Gupta	…	Vice President (Territorial) Jammu Central
9.	M. A. Khan	…	Vice President (Territorial) Jammu West
10.	M. S. Wani	…	Sr. Executive Manager, Lead Bank J&K SLBC
MSME Organizations			
11.	Shakeel Qalandar	…	President, FCIK
12.	T. S. Reen	…	Chairman, Federation of Industries Jammu
13.	A. M. Matoo	…	Representative KCCI
14.	B. L. Gupta	…	President, Sports Goods Mfg. Association
15.	Nazir Ahmad	…	Member, FCIK
Government Departments			
16.	Pradeep Gupta	…	Director, Industries & Commerce
17.	R. A. Qadri	…	Divisional Officer, KVIB
Banks/ Financial Institutes			
18.	A. U. Tak	…	Chairman, Ellaquai Dehati Bank
19.	Ashok Kumar Koul	…	Chief Manager, Lead Bank, SBI, Jammu
20.	Avtar Singh	…	Manager, PNB, Circle Office, Jammu
21.	M. K. Vij	…	General Manager, JRB
22.	B. A. Lone	…	Chairman, KRB
23.	K. C. Dogra	…	BDSM Rajouri/ Poonch, J&K Bank

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